

City Natural Gas Utility

CITY OF SUSANVILLE NATURAL GAS PROJECT

Response Requested: Susanville City Council

Findings: The Natural Gas project started construction on May 15, 2000 with Sunrise Engineering Company doing the engineering and the Arizona Pipeline Company doing the pipeline installation work.

The usual problems of such a large project, such as broken water and sewer lines as well as cutting and patching City street pavement.

The Natural Gas construction phase was reported as completed to the Susanville City Council on September 3, 2003.

Project Costs:

Steel Transmission Line by Rockford Corporation	\$ 2,279,821.00
Two Change Orders increase	\$ 108,821.00
	\$ 2,388,642.00

Poly Distribution System including laterals by Arizona Pipeline bid amount	\$ 9,623,850.00
Paid amount under the bid amount	\$ 9,850,128.00
	\$ (226,278.00)

The project was financed in the following manner. (COP – Certificates of Participation)

2001-1 COPs Series A	\$ 8,785,000.00
2001-1 COPs Series B	\$ 8,250,000.00
2001-1 COPs Series C	\$ 5,185,000.00
Total	\$ 22,250,000.00

Natural Gas Enterprise Fund Debt Service Year ended June 30, 2002.

	Principal	Interest	TOTAL
2003		\$ 1,322,038.00	\$ 1,322,038.00
2004		\$ 1,322,038.00	\$ 1,322,038.00
2005		\$ 1,322,038.00	\$ 1,322,038.00
2006		\$ 1,322,038.00	\$ 1,322,038.00
2007		\$ 1,322,038.00	\$ 1,322,038.00
Thereafter	\$ 22,250,000.00	\$ 11,898,340.00	\$24,148,340.00

Additional COP issued to finance overspending construction costs Principal Amount \$1,990,000.00. (See Total Debt report for details of this issue and total debt of Natural Gas project)

The Natural Gas Enterprise Fund was created to make sure all financial matters relating to the gas project were kept separate from other City government financial matters as the gas project was intended to be self-sustaining financially.

Information obtained by the Grand Jury and also indicated in the Independent Audit report of 2001-2002, the construction of the natural gas project had been allowed to exceed funding available and appropriated, by about \$1,300,000.00. The over expenditure seemed to, as of August 2003, start in February 2003 with conflicting reports about balances available for construction of the project.

It seems that no-one, City Council or City Administrator, took any strong action to solve or at least find the true financial status of the Natural Gas project from February 2003 to August 2003.

Councilman Douglas Sayers was asking questions in City Council meetings as to why there were no financial reports on City construction projects. He did not receive much support in Council meetings from other City Council members until the September 3, 2003 Council meeting when a financial report on the City Hall Remodeling project was finally given to the Council. Various Council members stated they would have preferred to have such a report much earlier in the remodeling project as the financial report indicated that the cost of remodeling City Hall exceeded the awarded bid of \$955,273.00. Actual payments to Maxim Construction were \$1,323,752.00. This same meeting resulted in a discussion of the Natural Gas project. The public discussion, on September 3, 2003 was brought about by the auditors asking city staff members if City Council members were aware in August 2003 of the \$1,300,000 over expenditure. Information obtained by the Grand Jury indicated that the City Administrator finally presented to the City Council a list of reasons why these over expenditures occurred and recommended that an additional \$2,000,000.00 in bonds be issued to cover over expenditures and reimburse the City general fund.

The City Finance Director at the request of the Grand Jury Furnished a statement of revenue and expenditures for the fiscal year 2003-2004 covering the 10 month period ending April 30, 2004 indicating that the natural gas project has operating expenditures exceeding operating revenue by \$1,100,066.00. This statement is at odds with some of the incomplete reports given to the City Council by the City Staff during the year when the Grand Jury members attended Council meetings.